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ABSTRACT

A recent report from Rand, a think tank in California, titled "The Trend in Inequality among Families, Individuals, and Workers in the United States" by Lynn A. Karoly confirms that the gap between the haves and have-nots is widening and that the middle class in the United States is shrinking. Latinos have been particularly hard hit. There has been a precipitous drop in labor income for men on the low end of the income scale, with an income loss for Latino men as much as 22 percent at the low end. In terms of median income, only Latino men experienced a real decline between 1970 and 1987; White males held their own and African American males showed modest growth. Median family income increased for all groups, but it grew by only 8.6 percent for Latino families, in contrast with a 24.8 percent increase for White families. However, Latino women were the only group of low-income women to show improvement relative to the median in each 5-year period since 1970. The most ominous statistic is the drop in the real median value of business holdings owned by nonWhites and Latinos. Other studies support the contention that the economic pie is divided more unequally than it was in 1980, with the share held by the middle class shrinking. (Contains 6 references.) (SLD)

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Middle-Class Squeeze

by Refugio I. Rochín and Pat Soberanis

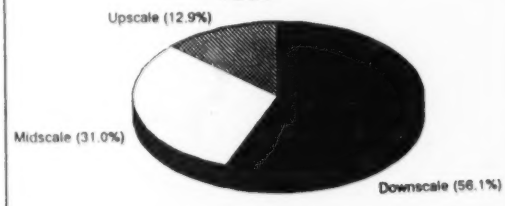
Did the gap between the "haves" and "have nots" widen during the 1980s, and is the middle class shrinking? The debate over the trend in inequality heated up recently with the release of a report from Rand (Karoly, 1992), a think tank based in Santa Monica, California. Rand's long-term perspective confirms that the gap has indeed widened, that the middle class is shrinking—and that Latinos have been particularly hard hit.

Studies have shown that Latino affluence, i.e., the number of "higher-income" Latino households, has increased dramatically over the past 20 years. The increase, however, has not been enough to counteract the income drops experienced by larger segments of the Latino community.

According to an August 1990 *American Demographics* report, the number of Latino households with incomes of $50,000 or higher (in 1988 dollars) shot up 234 percent between 1972 and 1988, from 191,000 to 638,000. Despite this increase, upscale households constitute only 12.9 percent of all Latino households, while upscale households constitute 20.8 percent of American households generally. Furthermore, downscale households (those with incomes of less than $25,000) represent 56.1 percent of Latino households but only 45.9 percent of American households—a full 10 percent difference. (See Figure 1.)

Figure 1

Hispanic Households by Class Status * 1989



All Households by Class Status 1989

* Class status is defined by 1988 income: Downscale, maximum $24,999; Midscale: $25,000 to $49,999; Upscale, $50,000 or over.

Source: Waldrop, J. "Up and Down the Income Scale," *American Demographics*, July 1990.

Both groups are accounted for in Rand's definitive report. Entitled *The Trend in Inequality Among Families, Individuals, and Workers in the United States*, Rand used a variety of measures to assess the inequality question. Every measure revealed the same trends: The rich getting richer, the poor poorer, and the middle class smaller. "The rise in inequality cannot be dismissed as a statistical aberration" [as some critics have charged], says report author Lynn A. Karoly. "It is real and represents a significant break with historical patterns."

"Some have cited the growth in the numbers of the poor and their worsening plight as a factor in the Los Angeles riots," she adds. "Certainly, these findings provide a suggestive backdrop for that contention."

Using percentiles to categorize workers' income, Karoly found a precipitous drop in labor income for men on the low end of the income scale. (See Table 1.) Inflation-controlled "real" income for men in the two low-income percentiles (10th and 25th) fell by more than 10 percent between 1970 and 1987; most of the decline occurred since 1979, Karoly reported.

For Latino men, the income *loss* was as much as 22 percent at the low end; the loss extends into the higher-income 75th percentile. In terms of median (50th percentile) income, only Latino men experienced real declines between 1970 and 1987; white males held their own, while African American males showed a modest growth.

Meanwhile, labor income for all workers at the top end of the scale rose by 10 percent, again since 1979. The combined result is a rising inequality that will not soon reverse itself. "A rising tide is supposed to float all boats," Karoly says of the 1980s' expansion, "but it

appears that this time some of them capsized. I would like to be more optimistic about the future, but it seems probable that the gap will continue to widen through the current recession."

The economist also measured relative family incomes, by comparing lower- and higher-percentile incomes with the median income. The same rich-poor divergence and timing (beginning in or intensifying since 1979) appeared here too, with lower incomes dropping at a much faster rate than the median, while higher incomes rose more quickly. These trends can be interpreted, Karoly wrote, as increases in the sizes of both the lower and upper classes—and a corresponding decline in size of the middle class.

Looking only at median income, which rose during the entire study period for all families, Karoly found that Latino families fared much worse than any other group. *While the median income grew by 24.8 percent for white families and 20.1 percent among African American families, it grew by only 8.6 percent for Latino families.*

At the lowest end of the scale (10th percentile), both African Americans and Latinos experienced declines in family income since 1973, while white families showed real income growth over that period. At the same time, income increased for high-income families in all categories, which contributed to greater inequality overall.

Although Karoly did not look into population changes among Latinos, some of her statistics for this group might be explained by immigration, which itself has grown markedly during the past twenty-five years. Recent immigrants traditionally start at the bottom of the economic ladder, and most Latino immigrants are members of families with children, which Karoly did study. Inequality was especially severe for families with children: For all families with children, she found that real income dropped by 22 percent for the low-income 10th percentile, while the high-end 90th percentile showed a 23 percent rise in real income.

This category includes not just those headed by a husband and wife, however. "Clearly, many families were hard hit when the bottom fell out of the labor market for men," Karoly conjectures. "The rise in female-headed families also helped to swell the ranks of the poor." Such changes in family composition only account for about one-third of the increase in inequality since 1967, she found.

In contrast to the devastating trends for male workers, Karoly discovered that inequality actually lessened for women through about 1980, though it increased thereafter. In fact, Latino women are the only group of low-income women (10th percentile) to show an improvement relative to the median in every five-year period since 1970.

The steep rises in Latino women's incomes shown in Table 1 probably reflect, at the low-income end, women

Table 1
Percentage Change in Weekly Wage and Salary Income*, 1970-1987, by Percentile

	Percentile**				
	10th	25th	50th	75th	90th
All Workers	4.9	-2.1	-1.9	4.4	10.9
All Male Workers	-12.5	-16.3	-4.5	6.9	9.2
Latino Male Workers	-13.7	-22.4	-15.7	-3.0	10.8
Latino Female Workers	44.3	18.3	3.5	23.7	28.5

* Weekly wage and salary income is annual wage and salary income (using 1986 dollars controlled for inflation) divided by number of weeks worked in the previous year; excludes self-employed workers, includes part-time as well as full-time, and temporary as well as permanent workers.

** Percentiles refer to the percentage of workers whose average weekly income falls at or below the percentile; e.g., an income of $118.58 for the 10th percentile means that 10 percent of all workers earned an average weekly income of $118.58 or less in 1970.

Source:
Karoly, L. The Trend in Inequality Among Families, Individuals, and Workers in the United States, Rand, 1992.

working more weeks per year, and at the high-income end, more women entering professional careers. At both levels, however, Latino women's average incomes are but a fraction of those of Latino men: Weekly 1987 wages for Latino women in the 10th percentile, for instance, were but 67 percent of their Latino male counterparts' wages. Latino and white male wages, however, did not differ significantly at this level. (See Table 2.)

Table 2
Percentile Weekly Wage and Salary Income, 1987 by Selected Race and Sex Characteristics

	Percentile				
	10th	25th	50th	75th	90th
White Males	109.89	240.74	433.04	662.43	906.75
Latino Males	102.38	170.34	273.58	443.79	662.43
White Females	57.92	125.90	236.58	378.53	545.08
Latino Females	68.89	123.20	199.71	321.75	461.01

Source: Karoly, L. The Trend in Inequality Among Families, Individuals, and Workers in the United States, Rand, 1992.

At the high-income 90th percentile, however, the spreads are even more dramatic. Latino male wages were just 73 percent those of white males in 1987; Latino women's wages remained at 69 percent those of Latino males. Indeed, even white females' wages at the 90 percentile

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stood well below those of their Latino male counterparts, and only 60 percent of upper-income white males' wages.

Finally, while the economic expansion of the mid- to late-1980s slowed the growth in inequality, Karoly found no evidence that the trend reversed during that period. She and her Rand colleagues are now investigating the forces behind the growth in inequality. "Supply-side explanations, such as the entrance of the baby-boom generation," Karoly asserts, "don't account for the wage patterns of the 1980s. A more plausible reason is changes in supply and demand for workers brought about by the globalization of the U.S. economy and rapid technological change."

Other studies on the subject—and there have been many—have found similar disparities, even when using vastly different measurements. In 1992, for instance, a Federal Reserve Bulletin report (Kennickell & Shack-Marques) looked at median net worth during the 1983-1989 economic expansion. The researchers found that while median net worth increased slightly overall, the declines were especially sharp among single parents and among nonwhites and Latinos.

For both men and women, the economic rewards of a college education increased dramatically, while less-educated adults often saw the real value of their earnings decline.

Their most shocking and ominous statistic, however, is the astounding 83 percent drop in the real median (50th percentile) value of business holdings owned by nonwhites and Latinos—from $49,000 to $8,400. "This decline, with a decrease in the rates of business ownership, reflects the exit of minority investors from the market," the researchers explained. In marked contrast, the economists found evidence of the first significant concentration of wealth at the top in over sixty years.

A 1991 analysis (Duncan, Smeeding and Rodgers) reported in *American Demographics* divided households into income classes. The study found that, although household size declined during the 1970s, the reductions failed to prevent a dramatic decline in the size of the middle class during the 1980s. Of 25- to 55-year-old men and women, fully 75 percent fell into the middle class category in the early 1970s.

After losing ground during the mid-1970s, this middle class regained its 75 percent share later in the decade. By 1983, however, the figure had plummeted to 65 percent, and by 1986 had recovered only slightly, to 67 percent.

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The increased value of education is also evident in a 1992 U.S. Bureau of the Census study on low-income workers: All persons, regardless of race or ethnicity, without a high-school education were likely to be among the poor. However, the study also showed an increase in working poor among people with one year or more of college.

Education may prove to be a significant factor in the lagging statistics for Latino households reported by O'Hare (*American Demographics*, August, 1990). Even among these affluent Latinos, for instance, only 29 percent have at least a four-year college degree, while 48 percent of their white counterparts hold degrees.

These reports show that any way you slice the data, the results are the same: The economic pie is divided more unequally than it was in 1980, and the share held by the middle class is shrinking. In this year of recession and national elections, such findings need to become part of the policy debate over how best to restart the American economy, and how best to distribute its assets.

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